

**WRITTEN TESTIMONY  
OF  
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AND  
CHAIRMAN, WORLD COUNCIL OF CREDIT UNIONS  
ON BEHALF OF THE  
CREDIT UNION NATIONAL ASSOCIATION (CUNA)  
AND  
WORLD COUNCIL OF CREDIT UNIONS (WOCCU)  
ON  
“IMPLEMENTING THE MICROENTERPRISE RESULTS AND  
ACCOUNTABILITY ACT OF 2004”  
BEFORE THE  
HOUSE COMMITTEE ON INTERNATIONAL RELATIONS  
SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS AND INTERNATIONAL  
OPERATIONS**

**September 20, 2005**

Chairman Smith, Ranking Member Payne and members of the Subcommittee, on behalf of the Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU), I appreciate this opportunity to come before you today to express our organizations' views on how international credit union development and microenterprise programs are impacted by the implementation of the *Microenterprise Results and Accountability Act of 2004*.

CUNA is the largest credit union advocacy organization in the US, representing over 90% of our nation's approximately 9,000 state and federal credit unions and their 87 million members. CUNA is also the largest member of WOCCU, the international trade association and development agency for credit unions. WOCCU represents the interests of credit unions in 91 countries, totaling over 43,000 credit unions and 136 million credit union members. WOCCU has been implementing technical assistance programs in the microenterprise field for over 35 years, and is committed to assisting in the continued growth and progress of credit unions around the world.

I am Gary Plank, President & CEO of the Arizona Credit Union League, and Chairman of WOCCU. The Arizona Credit Union League represents over 60 credit unions throughout the state and actively works with Caja Libertad, Mexico's second-largest credit union, through WOCCU's International Partnership Program. I also serve as Chairman of CUNA's World Leadership Development Committee.

CUNA and WOCCU are pleased that the Subcommittee is reviewing the implementation of the microenterprise bill which addresses development project funding at the mission and central office levels of the US Agency for International Development (USAID). I am pleased to have the opportunity to speak to the distinctive credit union approach to microfinance, how WOCCU

has worked in partnership with the USAID to provide access to an array of affordable financial services to the poor in developing countries, how USAID's recent trend in issuing large contracts has impacted WOCCU's ability to implement new projects, and the role of US credit unions in supporting international credit union development.

### **The Credit Union Approach to Microfinance**

In the US and around the world, credit unions are in the business of helping people help themselves to improve their lives. As not-for-profit democratically controlled financial cooperatives, credit unions are owned and managed by the people they serve. They mobilize savings from within their communities so they can make loans to members who need them. In the same way that struggling Americans have been coming together to form credit unions with the philosophy of self-help since the 1930s, credit unions overseas afford poor and low-income people the opportunity to accumulate assets and take a step up the rung of the ladder from poverty to wealth.

WOCCU technical assistance programs improve credit union performance so that these financially sustainable institutions can offer services to members of all wealth levels. The strategies that WOCCU-affiliated credit unions implement to mainstream services and scale up to integrate mass numbers of poor people into the financial sector include: offering an array of client-responsive services; extending geographical coverage; introducing distinct products for downreach; and harnessing technology. WOCCU's development efforts focus on the micro – establishing and/or strengthening credit unions, meso – creating and/or professionalizing second-tier credit union organizations, and macro – improving the regulatory environment for credit union operations.

WOCCU pioneered the “Model Credit Union Building” methodology that includes a strong emphasis on savings mobilization and financial disciplines. Like clients from other wealth levels, the poor need an array of financial services in order to employ economic coping strategies. WOCCU services, tailored to clients of diverse wealth levels, include innovative savings, lending and insurance products as well as transaction services such as affordable money transfers, shared branching and debit cards.

To reinforce prudential standards, institutional stability and ensure real positive growth, WOCCU monitors credit union performance through its PEARLS financial performance monitoring system. WOCCU transfers its PEARLS and business planning tools to participating credit unions, members and regulators to provide its users management and supervisory guidance.

Though the focus of WOCCU's projects range from savings to remittances and insurance, microenterprise lending is always a key component to helping individuals and communities achieve financial security and independence. As a significant source of microenterprise funding, credit unions have helped thousands of women and men in the developing world start small businesses and learn important skills for self-support. Credit unions in developing countries regularly make loans under \$500 to help struggling self-employed members build their

businesses and improve their families' lives. The following story illustrates an example of the tremendous impact of credit union microfinance services abroad:

*After the death of her two brothers from AIDS, Roseline Wangawi, a home economics teacher and credit union member in Kenya, took on the responsibility of providing for her brothers' five orphaned children in addition to her own four. Needing to supplement her income, she decided to sew and embroider during the weekends and holidays. She borrowed \$400 from her credit union to buy an embroidery machine. With a growing business, she has been able to pay off that loan, support her family, pay school fees and accumulate savings at the credit union.*

The credit union approach to microfinance focuses on access to affordable financial services, and providing people with the financial literacy skills and tools to improve their lives. WOCCU's project credit unions have proven to be successful vehicles for the provision of microenterprise loans to individuals who go on to start their own businesses, employ others in the community and accumulate assets.

### **WOCCU in Partnership with USAID**

WOCCU, funded by USAID and other bilateral and multilateral agencies, also receives contributions from US credit unions through CUNA, CUNA Mutual and the National Credit Union Foundation (NCUF). WOCCU is currently carrying out 15 multi-year country programs, nine of which are funded by USAID. The credit unions supported by all of these programs serve 3.1 million member-clients and have mobilized \$3.9 billion in deposits to fund the portfolio of member borrowing needs of \$3.6 billion.

WOCCU has been a longstanding implementing partner of USAID. In particular, WOCCU has had a strong partnership with the Office of Microenterprise Development from which it has won seven competitive Innovative Grant Program (IGP) cooperative agreement awards amounting to \$16 million from 1995-2003 for life-changing credit union strengthening programs in Ecuador, Kenya, Philippines, Romania, Vietnam, Mexico and Colombia.

One example of an IGP program that illustrates the effectiveness of this type of cooperative agreement is WOCCU's Caja Popular Mexicana program. During the four-year (2001-2005), \$3.5 million program, WOCCU has worked to strengthen Mexico's largest credit union to more than double its outreach from 477,000 to more than one million member-clients; to develop financial products to better serve the needs of microentrepreneurs; and to distribute remittances to financially struggling members and non-members through more than 300 branches throughout rural and urban parts of the country.

WOCCU recognizes the value of the central Microenterprise Development office. This office, staffed with technical experts in microfinance and business development services, has experimented, developed and forged the frontier of new and more effective ways to deliver financial services to the poor and unbanked. Many of these innovative services and expanded accessibility to the poor have been through credit unions through IGP awards.

In addition to implementing centrally funded microenterprise development programs, WOCCU has partnered with a numerous USAID missions to implement microenterprise development programs. As a specialized implementing partner, WOCCU strongly believes in the value of the consultation by the Office of Microenterprise Development staff with the staff of USAID mission offices to ensure the design and procurement of best practice microenterprise programs.

An investment of US foreign assistance in credit union development produces sustainable, savings-driven institutions that continue to serve their members long after US contributions are made. USAID-funded credit union projects through WOCCU have resulted in sustainable financial institutions that have changed economies throughout communities in the developing world.

### **USAID Trends to Large Contracts**

For 35 years as a USAID implementing partner, WOCCU has worked on the ground delivering specialized training to create new credit unions, reforming and modernizing credit unions, and improving the regulatory and supervisory framework for credit unions. Despite our strong track record, WOCCU has been drastically affected by USAID's trend to procure financial services and microenterprise work through large contracts implemented by for-profit contractors rather than competing work through cooperative agreements and grants. USAID now funds vast umbrella programs that attempt to work across the financial sector with general training provided by contractors and their consultants instead of funding specialized programs with expertise provided by specialized practitioners. The breadth of the activities bundled into one large contract require economies of scope from the competing contractors, essentially precluding small specialized firms from being able to viably compete as prime implementers for large contracts.

The opportunities to compete for cooperative agreements have decreased substantially while, alternatively, prime contractors do not have any incentive to meaningfully subcontract with specialized non-profit organizations. A for-profit firm has as its core mission to maximize profits; therefore, it has the incentive to minimize subcontractor participation.

As evidence, between 1994 and 2002, WOCCU's average historical annual volume of authorized project start-ups was \$8 million. In 2003, WOCCU won new USAID awards for only \$3.5 million. In 2004, WOCCU fared only slightly better with new awards totaling \$4.8 million.

It has been WOCCU's experience at multiple USAID missions in places as diverse as Uganda and Sri Lanka that mission staff interested in credit union development direct WOCCU to petition large contractors in order to secure opportunities to work in mission territory rather than issuing a competition for a separate award or considering an unsolicited proposal. This trend of relegating programmatic decisions to the prime contractor results in a loss of control by USAID and a loss in quality delivery of capacity-building services to credit unions in the field.

USAID contracts have become increasingly large and are now encompassing sectors as diverse as alternative development, agribusiness, small and medium enterprise, thereby relegating financial services to essentially a support role in the scope of work. We recognize the ease for USAID, constrained by limits on the number of contracting and technical personnel, to have one

large contract than to make several smaller individual awards. Individual awards for specialized sectors such as microenterprise for which niche practitioners can compete require not only more procurement personnel, but also additional technical staff to effectively design and manage programs that follow best practices for microfinance.

CUNA and WOCCU implore Congress to recognize the fundamental changes that must be made in USAID procurement practices and capacity to reverse the trend of issuing large contracts and impeding the ability of smaller, not-for-profit firms to compete for funding. WOCCU submits, in fact, that though they may be easier to procure, large contracts provide questionable value for the investment.

*Example of WOCCU IGP Project versus Contractor Project*

WOCCU has worked in the Philippines for eight years. USAID's Office of Microenterprise Development first funded WOCCU's work for five years with an IGP award of \$3.7 million from 1996-2002 and the Manila mission funded WOCCU for a subsequent three years for \$3.5 million. A total USAID investment of \$7.2 million through two cooperative agreements yielded more than 30 credit unions serving 419,500 member-clients, 73% of whom are women as of June 2005. The average loan size is \$282; the average deposit size is \$102. Savings and shares fully fund the loan portfolio.

For a similar time period, 1998-2004, USAID contracted with a leading contractor for \$12 million dollars for a microfinance program in the Philippines. The external evaluation of this project reports that there were 45,216 borrowers and 188,669 microdepositors as of December 2003, nine months before the project closed. The final project targets were 57,000 microborrowers and 200,000 microdepositors; therefore, the project presumably achieved its targets. The average loan size was \$127.

It is a difficult and complex task to compare apples to apples when looking at contracts versus cooperative agreements and umbrella projects versus specialized projects. However, I want to leave with you this investment versus outreach summary: \$7.2 million and 419,500 credit union member-clients after eight years compared to \$12 million and a targeted 257,000 clients after seven years. The more cost-effective investment of U.S. taxpayer dollars in this example is clear: \$17 per client with WOCCU's Philippines programs and \$47 per client with the contractor's program.

|                              | <i>Funding</i> | <i>Clients</i> | <i>Cost per Client</i> |
|------------------------------|----------------|----------------|------------------------|
| <i>WOCCU<br/>Philippines</i> | \$7.2 million  | 419,500        | \$17                   |
| <i>Contractor</i>            | \$12 million   | 257,000        | \$47                   |

It is CUNA and WOCCU's position that the Subcommittee should compel USAID to include cooperative agreements in its mix of procurement instruments so as not to preclude specialized practitioners from competing to design and deliver the services that they provide best. WOCCU has far greater capabilities of reaching large numbers of the underserved.

## **The Role of the U.S. Credit Union Movement**

The US credit union movement is directly engaged in international credit union development through WOCCU's International Partnership Program. In Arizona, credit unions are actively participating in our partnership with Mexico's second-largest credit union. The partnership reinvigorates the commitment of both parties to the credit union philosophy of people helping people. Our partner, Caja Libertad, has provided us with advice on how to market to the underserved Hispanic community in Arizona. In turn, we have motivated Caja Libertad to open new offices in remote rural areas of Mexico which have never before been served by any type of formal financial institution.

There are 18 such partnerships between state credit union leagues and credit union movements in developing countries. Most of these partnerships stemmed from a WOCCU program funded through a USAID cooperative agreement, and continue with the financial and personal support of the involved US credit unions, leagues and their staffs. WOCCU provides the initial coordination and guidance so that US credit union professionals can volunteer their time to contribute technical expertise to further program objectives and foster cross-border relationships which last long after the USAID project is complete.

From my vantage point as a US credit union leader, it is clear to me that as the use of large contracts increase, the US credit union movement loses opportunities to contribute volunteer service advancing hands-on foreign assistance and developing an understanding of the world outside US borders.

## **Conclusion**

The recent tender of the microenterprise FIELD-Support "Leader with Associates" (LWA) procurement mechanism for not-for-profit consortiums by the Microenterprise Development office, made possible by the resources authorized by the *Microenterprise Results and Accountability Act of 2004*, is one response to decreasing opportunities for small, specialized non-governmental organizations to compete for development funding. A launch of a new IGP competitive round to be awarded in 2006 after two years without IGP competitions is another response.

CUNA and WOCCU applaud these first responses; however, they need to be the first steps of many to follow to address the disturbing trend by USAID to issue large, pre-competed contracts and massive multisectoral umbrella contracts. A next vital step is for USAID personnel levels to be increased so that cooperative agreements are tendered by missions to engage specialized practitioners to ensure that "US Aid from the American People" benefits the greatest number of underserved people with access to sustainable financial services.

CUNA and WOCCU implore Congress to:

- Ensure the efficiency and effectiveness of microenterprise programs by enforcing the central funding of the Microenterprise Development office as set forth in the Microenterprise Results and Accountability Act of 2004;

- Provide adequate funding for USAID technical and acquisition personnel so that large umbrella contracts are not necessary for administrative ease; and
- Continue to encourage USAID to use procurement instruments for which specialized not-for-profit practitioners can compete, and emphasize the value of direct service providers on the ground implementing long-term sustainable development projects rather than more limited grants under umbrella contracts.

CUNA and WOCCU are optimistic that if implemented as Congress intended, the *Microenterprise and Results Accountability Act of 2004* can propel more productive microenterprise development and ensure the continued success of one of USAID's most important development assistance tools. Thank you for holding this important hearing and I look forward to a continued dialogue on maximizing the US foreign assistance investment through fair and effective microenterprise programs.